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FISCAL IMPACT STATEMENT

LS 6025 | **NOTE PREPARED:** Feb 21, 2013
BILL NUMBER: HB 1018 | **BILL AMENDED:** Feb 18, 2013

SUBJECT: Financial Institutions Matters.

FIRST AUTHOR: Rep. Messmer | **BILL STATUS:** As Passed House
FIRST SPONSOR: Sen. Holdman

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) The bill reduces the Financial Institutions Franchise Tax rate over four years, from 8.5% for taxable years beginning before January 1, 2014, to 6.5% for taxable years beginning on or after January 1, 2017.

The bill makes the Public Deposits Insurance Fund (PDIF) a trust fund. It provides that the treasurer of state is the trustee of the fund. It requires a two-thirds vote by the General Assembly before money in the PDIF may be used for a purpose other than paying expenses for the administration of the fund, investing, reinvesting, and exchanging specified investments, paying allowable operational expenses, paying claims on insured public deposits, making deposits of uninvested funds, distributing interest revenues to the Auditor of State (AOS).

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the financial institution tax rate changes. The DOR's current level of resources should be sufficient to implement these changes.

(Revised) *Public Deposit Insurance Fund (PDIF)*: The bill provides that the PDIF is a trust fund and not a part of the state treasury. The bill requires the State Treasurer to act as the trustee for the PDIF. The bill also prohibits the State Board of Finance, the State Budget Agency, or any other state agency from transferring, assigning, or otherwise removing money from the PDIF. The bill provides that except for specified purposes, the money in the PDIF may not be expended, removed, or transferred without the approval of two-third of the members of each house of the General Assembly. The bill provides that the following expenditures could be made at the direction of the trustee and does not require an approval by the General Assembly:

(1) Paying expenses of administering the fund.
(2) Investing, reinvesting, and exchanging investments.
(3) Paying claims on insured public deposits.
(4) Making payments required by contracts executed by the Board of Depositories.
(5) Making deposits of uninvested funds.
(6) Paying certain allowable expenses.
(7) Providing the AOS with a check for the Pension Distribution Fund.

(Revised) *Background - PDIF:* The PDIF is funded by assessments payable by every depository that has public funds, although the Board of Depositories may waive assessments if, in its discretion, it determines that the assets of the PDIF are equal to the reserve for losses. At the present time, the Board has waived the assessments. The total fund balance of the PDIF was $300 M on November 30, 2012. The fund balance includes a $5 million bond purchase agreement with the Indiana Housing and Community Development Authority and a $50 million receivable from the State of Indiana.

Explanation of State Revenues: *Summary* - The bill reduces the financial institutions tax (FIT) rate from 8.5% to 6.5% over four years beginning in CY 2014. The table below summarizes the estimated annual revenue loss from the tax rate reductions.

Fiscal Year	Revenue Loss
2013	Minimal
2014	$2.4 M
2015	$7.1 M
2016	$11.8 M
2017	$16.5 M
2018	$18.8 M

The revenue loss could begin in FY 2013 as some financial institutions reduce estimated tax payments. However, the impact in FY 2013 should be minimal since approximately 85% of the financial institutions paying roughly 96% of the tax liability are calendar year filers. The table below summarizes the phase-in of the FIT rate reduction.

Calendar Year	Tax Rate
2013	8.5%
2014	8.0%
2015	7.5%
2016	7.0%
2017 and after	6.5%

Background Information - Revenue from the FIT is distributed to local units and to the state General Fund.

Local units are annually guaranteed revenue from the FIT. The amount guaranteed to a local unit is equal to the difference between: (1) the amount that was received by the taxing unit in 1989 under financial institutions taxes that were repealed and replaced by the FIT and (2) the amount received in the current year by the taxing unit from property taxes attributable to personal property of banks. FIT distributions to local units occur throughout the fiscal year until the guarantee is met. The local guarantee historically totals approximately $45 M. The estimate of state revenue loss assumes the residual FIT revenue distributed to the state General Fund will total $35 M annually, which is the historical average.

Once the rate reduction is fully phased in, annual FIT revenue could be at a level where in recessionary periods transfers from the state General Fund to local units might be required to pay the local guaranteed amounts. During recent economic downturns, FIT revenue has declined by an average of almost 21% from the historical average of about $80 M per year. Once the rate reduction is fully phased in, it is estimated that annual revenue could potentially total about $61.1 M. A cyclical revenue decline of 21% could potentially reduce this total down to about $48.5 M, just above the amount required to pay the local guarantee.

Explanation of Local Expenditures:

Explanation of Local Revenues: *See Explanation of State Revenues.*

State Agencies Affected: Department of State Revenue, Treasurer of State, Board of Depositories.

Local Agencies Affected:

Information Sources: OFMA Income Tax databases, 2008. *Indiana Board for Depositories Financial Statements*, Years Ended June 30, 2012 and 2011 and Years Ended June 30, 2011 and 2010; Indiana Board for Depositories, *Semi-Annual Report to the State Budget Committee*, December 4, 2012 and June 4, 2012 accessed at http://www.in.gov/tos/deposit/2374.htm .

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